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SENSITIVE

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SUBJECT: AFTER RUSSIA'S BAN: MOLDOVAN WINE FLOWING

SENSITIVE BUT UNCLASSIFIED; PLEASE PROTECT ACCORDINGLY

¶1. (SBU) SUMMARY: Bolstered by the resolution of the Russian wine ban, Moldovan wine exports were up three-fold in the first quarter of 2008 compared with 2007. Exports to Ukraine and Belarus, which increased substantially in 2007, continue to grow. Preferential trade access granted by the EU provides opportunities for new markets, albeit extremely competitive ones. Despite the damage caused by Russia's politically motivated bans, some Moldovan wine producers have quickly returned to the Russian market. EU trade preferences will allow some Moldovan wines to be price competitive on European markets; however, quality remains a concern. END SUMMARY.

WINE EXPORTS

¶2. (U) According to MoldovaVin, the state wine agency, exports of Moldovan wine totaled USD 44.1 million in the first quarter of 2008. The CIS countries remained the main consumers of Moldovan wines, accounting for 85% of total exports. Ukraine (USD 13.2 million) was the leading importer followed by Belarus (USD 11.4 million) and Russia (USD 10.7 million). Exports to the EU were USD 5.8 million (about 13% of total exports), which represents a 55% increase compared to the first quarter of 2007. Poland, Romania and the Czech Republic were the leading importers in the EU.

¶3. (U) Since March 1, Moldovan wines have enjoyed preferential access to European markets under the autonomous trade preferences granted by the EU. Moldova received a preferential quota of 6 million liters of wine for 2008. The quota is set to increase to 7 million in 2009; 8 million in 2010; 10 million in 2011; and 12 million in 2012. (NOTE: The quota does not include sparkling wines or wines with more than 15% alcohol. END NOTE.)

MOLDOVAN WINE: BEFORE AND AFTER THE BAN

¶4. (U) In 2005, about 95% of Moldova's wine and brandy exports went to the CIS with Russia accounting for 70%. Only about 3% of Moldovan wine exports went to EU markets. Russia banned imports of Moldovan wine in late March 2006, citing sanitary and phytosanitary concerns, though most suspected political motivations. Although Moldovan producers worked to diversify their markets, total wine exports declined by over 40% (in value) in 2006 compared with 2005 from USD 313 million to USD 180 million.

¶5. (U) In 2006, pre-ban sales (January - March 2006) to Russia accounted for about 30% of total exports. Following the ban, exports to Ukraine and Belarus increased substantially, accounting for 40% of total exports. Sales to EU countries totaled USD 37.5 million, representing about 21% of total wine exports. Poland, Romania, Germany and the Czech Republic were major EU importers.

¶6. (U) In 2007, total wine exports were USD 130 million, a 28% decrease compared with 2006 and a 58.5% decrease compared with 2005. Despite the overall decline, exports to Ukraine and Belarus

continued to grow, totaling USD 82 million (about 63% of total exports). Moldovan exports to the EU declined from USD 37.5 million in 2006 to USD 19 million in 2007. At the end of October 2007, the Russian ban was formally lifted, and the first limited shipments of Moldovan wines reached the Russian market in mid-November.

(COMMENT: Some have speculated that Moldovan wine exports to Ukraine and Belarus during the ban were actually destined for the Russian market. However, the positive trend has continued in the first quarter of 2008. Sales to the EU decreased in 2007, likely once the sympathy that many felt for Moldova was overcome by the variable quality of Moldovan wine. END COMMENT.)

COMMENT

17. (SBU) Following 19 months of disruption, Moldovan wine exports are recovering. The resolution of the Russian wine ban and the granting of preferential market access by the EU represent two positives for the struggling sector. Moldova also managed to increase exports to Ukraine. However, it remains to be seen how long domestic Ukrainian producers will tolerate competition.

18. (SBU) Representatives of Moldova's leading wineries have told us that they must diversify exports if the Moldovan wine sector is to survive. Our technical assistance helped create the Moldovan Wine Guild, an organization of leading wineries dedicated to improving the quality and the image of Moldovan wine. Unfortunately, many wineries have limited access to credit to fund much-needed investments, such as planting new grape varieties, acquiring new processing technology, and improving quality-control measures. Many wineries will continue to produce low-quality wines destined for the CIS market. While the CIS market represents opportunity, the 1998 Russian currency crisis and the politically motivated ban of March 2006 demonstrate the precarious nature of this strategy. The EU's preferential market access provides a more secure future for Moldovan producers; however, quality and consistency remain a challenge.

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